

Learning Objective

Recording Closing Entries



Journalize and post closing entries for a service business organized as a proprietorship.

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1

Need for Permanent and Temporary Accounts

- Accounts used to accumulate information from one fiscal period to the next are called **permanent accounts**.
 - Permanent accounts are also referred to as *real accounts*.
- Accounts used to accumulate information until it is transferred to the owner's capital account are called **temporary accounts**.
 - Temporary accounts are also referred to as *nominal accounts*.

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Need for Closing Temporary Accounts

- Journal entries used to prepare temporary accounts for a new fiscal period are called **closing entries**.
- The temporary account balances must be reduced to zero at the end of each fiscal period.

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Need for the Income Summary Account

- When revenue is greater than total expenses, resulting in a net income, the Income Summary account has a credit balance, as shown in the T account.

Income Summary	
Debit	Credit
Total expenses	Revenue (greater than expenses) (Credit balance is the net income.)

- When total expenses are greater than revenue, resulting in a net loss, the Income Summary account has a debit balance, as shown in the T account.

Income Summary	
Debit	Credit
Total expenses (greater than revenue) (Debit balance is the net loss.)	Revenue

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Closing Entry for an Income Statement Account with a Credit Balance

Sales			
Closing	5,820.00	Bal.	5,820.00
		(New Bal.	0.00)

Income Summary	
Closing (revenue)	5,820.00

ACCOUNT TITLE		5	6
		INCOME STATEMENT	
		DEBIT	CREDIT
12	Sales		5 8 2 0 00

GENERAL JOURNAL							PAGE 3
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT		
Closing Entries							
31	Sales			5 8 2 0 00		6	
	Income Summary				5 8 2 0 00	8	

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Closing Entry for Income Statement Accounts with Debit Balances

ACCOUNT TITLE		INCOME STATEMENT	
		DEBIT	CREDIT
13	Advertising Expense	3 9 7 00	
14	Cash Short and Over	1 00	
15	Communications Expense	8 0 00	
16	Equipment Rental Expense	1 4 5 5 00	
17	Insurance Expense	1 5 0 00	
18	Miscellaneous Expense	4 5 00	
19	Supplies Expense	5 3 0 00	

(Credit to close)

GENERAL JOURNAL							PAGE 3
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT		
31	Income Summary			2 6 5 8 00		9	
	Advertising Expense				3 9 7 00	10	
	Cash Short and Over				1 00	11	
	Communications Expense				8 0 00	12	
	Equipment Rental Expense				1 4 5 5 00	13	
	Insurance Expense				1 5 0 00	14	
	Miscellaneous Expense				4 5 00	15	
	Supplies Expense				5 3 0 00	16	

Debit Amount

Income Summary

Date

Credit

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Closing Entry to Record Net Income or Loss and Close the Income Summary Account

Income Statement

INCOME STATEMENT	
DEBIT	CREDIT
2 6 5 8 00	5 8 2 0 00
3 1 6 2 00	
5 8 2 0 00	5 8 2 0 00

Net Income T-account

ACCOUNT TITLE
20
21 <i>Net Income</i>

General Journal Entry

GENERAL JOURNAL						PAGE 3
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT	
31	<i>Income Summary</i>			3 1 6 2 00		
	<i>Michael Delgado, Capital</i>				3 1 6 2 00	

Annotations:

- 1** Date
- 2** Debit (Income Summary: debit to close)
- 3** Credit (Capital: credit to record net income)

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Closing Entry for the Owner's Drawing Account

Balance Sheet

BALANCE SHEET	
DEBIT	CREDIT
1 1 5 0 00	2 0 0 0 00

Michael Delgado, Drawing T-account

ACCOUNT TITLE
9 <i>Michael Delgado, Capital</i>
10 <i>Michael Delgado, Drawing</i>

General Journal Entry

GENERAL JOURNAL						PAGE 3
DATE	ACCOUNT TITLE	DOC. NO.	POST. REF.	DEBIT	CREDIT	
31	<i>Michael Delgado, Capital</i>			1 1 5 0 00		
	<i>Michael Delgado, Drawing</i>				1 1 5 0 00	

Annotations:

- 1** Date
- 2** Debit
- 3** Credit (Credit to close)

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Audit Your Understanding

1. What do the ending balances of permanent accounts for one fiscal period represent at the beginning of the next fiscal period?

ANSWER

Beginning balances

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Audit Your Understanding

2. What do the balances of temporary accounts show?

ANSWER

Changes in the owner's capital account for a single fiscal period

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Audit Your Understanding

3. List the four closing entries.

ANSWER

1. An entry to close income statement accounts with credit balances.
2. An entry to close income statement accounts with debit balances.
3. An entry to record net income or net loss and close the Income Summary account.
4. An entry to close the owner's drawing account.